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SUBJECT: IRAQ'S CIVIL SERVICE APRIL PAY RAISE

¶1. (SBU) On April 10, the Iraqi Council of Representatives (CoR) passed the Civil Service Salary Law in its third reading; the law now awaits endorsement at the Presidency Council. This law will substantially increase the monthly wages for the first time since 2004 of the approximately 2 million member civil service (not including those employed by the Kurdistan Regional Government (KRG), who are paid from the KRG's 17 percent allocation of the 2008 federal budget). Although we still do not have a translated copy of the final law, discussions with GoI officials indicate this pay raise could cost an extra 1.7 trillion Iraqi dinar (ID) (USD 1.42 billion at 1200 ID/USD) this year. The Iraqi civil service pay scale comprises ten degrees, with the 10th degree the lowest and the 1st degree the highest. The monthly base salary increases, for example, include a 6 percent raise for those with a primary school education from ID 144,000 (USD 120) to ID 152,000 (USD 127), to a 35 percent raise for those with a master's degree or medical degree from ID 278,000 (USD 232) to ID 374,000 (USD 311). Also included within the law is an approximately ID 10,000 - 15,000 (USD 8 - 12) monthly supplement per child for up to four children per family of a government employee.

¶2. (SBU) In an April 17 meeting with Ministry of Finance (MoF) advisor Dr. Aziz Hassan Jaffar, EconOff asked if the MoF had discussed the civil service pay raise proposal with the IMF. Dr. Aziz said he explained to the IMF that this was the first civil service-wide pay raise since 2004, in spite of periods of high inflation; Dr. Aziz said when accounting for inflation, this pay raise restores to parity the purchasing power of civil service employees. In fact, Dr. Aziz said, he had heard prices in Baghdad had already risen in anticipation pay raise approval. He asserted that the raise would have no negative effect on Iraq's Standby Arrangement with the IMF because the substantial raise was necessary to offset the low wages characteristic of the Saddam Hussein regime, which were no longer sustainable because many of the previous subsidies (including fuel) had since been removed.

¶3. (SBU) CoR Finance Committee members meeting with EconOffs on April 23 also were supportive of the civil service pay raise and viewed it as necessary to bring public sector wages in line with inflation. Finance Committee (and Tawafuq/IIP) member Ala'a Alsadon told EconOffs that with oil export revenue based on a price of USD 57/barrel and world prices at USD 119/barrel, the government should be easily able to afford the pay increase. Finance Committee Kurdish member Sami Atroshi told EconOffs he believed the Presidency Council would pass the new law because it benefits many Iraqis, and employees were already expecting the raise. On April 16, CoR Economic Committee deputy head Yonadam Kanna told EconOff while the pay raise was necessary to cover inflation for civil service workers, he was very concerned about the negative impact on Iraq's farmers who would not be eligible to receive any pay raise. He believes rising prices will continue to dampen growth in the agriculture sector and make it more difficult for Iraqi farmers to earn a living wage.

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Comment  
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14. (SBU) We will send a follow up report with a more detailed analysis of the civil service pay raise once the Presidency Council endorses the law. At first glance, this pay raise is good step for the central government to illustrate it is looking out for the interests of the Iraqi people and is seeking to share growing oil revenue windfalls. Because civil service wage increases have not kept pace with inflation, this raise is necessary, but assessing its inflationary impact will be difficult until we determine its exact cost, about which none of our interlocutors could proffer an estimate. However, Yonadam Kanna raises a compelling point in that Iraq's fledgling private sector workers will receive no wage increase and are unlikely to benefit from increased prices in the marketplace. Moreover, this civil service wage increase likely could come at the expense of funds being used for critical job creation needed to promote stability and growth. End Comment.  
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